

2007-2008 ANNUAL REPORT

GENERAL FUND EXPENDITURE PERFORMANCE

The General Fund expenditure performance for 2007-2008 is discussed in detail in this section. This includes an overview of the General Fund expenditure performance, a discussion of significant departmental variances, highlights of the non-departmental expenditures, and a review of overtime performance.

Overview

The following table details actual 2007-2008 General Fund expenditures as compared with the modified budget estimates:

TABLE B
2007-2008 GENERAL FUND EXPENDITURE SUMMARY
COMPARISON OF BUDGET TO ACTUAL
(In \$000s)

Category	Modified Budget*	Actual**	Variance	% Variance
<i>Personal Services</i>	\$ 620,829	\$ 608,490	\$ 12,339	2.0%
<i>Non-Personal/Equipment/Other</i>	121,423	108,123	13,300	11.0%
<i>City-Wide Expenses</i>	148,478	104,350	44,128	29.7%
<i>Capital Contributions</i>	48,101	29,061	19,040	39.6%
<i>Transfers</i>	30,374	30,374	-	0.0%
<i>Reserves</i>	132,569	-	132,569	100.0%
TOTAL GENERAL FUND	\$ 1,101,774	\$ 880,398	\$ 221,376	20.1%

* 2007-2008 appropriations as modified by Council through June 30, 2008, plus 2006-2007 carryover encumbrances

** Actual 2007-2008 expenses plus encumbrances

General Fund expenditures and encumbrances through June 30, 2008 totaled \$880.4 million. This expenditure total was up \$86.3 million, or 10.9%, from the June 2007 level of \$794.1 million, but was \$221.4 million below (down 20.1%) the modified budget total of \$1.1 billion. Excluding \$132.6 million in reserves, the remaining savings were \$88.8 million (9.2%).

The largest single category of savings occurred, as planned, in the Reserves category (\$132.6 million). The most significant reserves remaining at year-end included the following: Contingency Reserve (\$29.7 million); Salaries and Benefits Reserve (\$10.0 million); Workers' Compensation/General Liability Reserve (\$10.0 million); Economic Uncertainty Reserve (\$10.0 million); Development-Related Activities Reserves (\$9.2 million); 2007-2008 Future Deficit Reserve (\$7.3 million); Enhanced Park Maintenance Reserve (\$6.2 million); and Future Capital

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

Projects (FF&E) Reserve (\$5.7 million). Additional, detailed discussion of the reserve status can be found later in this section of the document.

Personal Services expenditures ended the year \$12.3 million (2.0%) below the budgeted level. This level of savings is fairly comparable with the following levels experienced in recent years: 2006-2007 at 2.5%; 2005-2006 at 2.2%; 2004-2005 at 1.3%; 2003-2004 at 0.8%; 2002-2003 at 1.1%; 2001-2002 at 1.8%; 2000-2001 at 2.1%; and 1999-2000 at 1.5%. The majority of personal services savings were generated by five departments: Police (\$3.6 million); Fire (\$1.8 million); Planning, Building and Code Enforcement (\$1.6 million); Parks, Recreation and Neighborhood Services (PRNS) (\$0.9 million); City Auditor (\$0.8 million); and Transportation (\$0.6 million). The Personal Services savings in all departments were primarily generated from vacant positions, reflecting the impact of the hiring freeze (review), in place in some form since 2001. It should be noted, however, that of the \$12.3 million in personal services savings, \$1.6 million was rebudgeted to 2008-2009 as part of the Adopted Budget and an additional \$3.6 million is recommended to be rebudgeted as part of this document. Factoring out those rebudgets, personal services savings totaled \$7.1 million, or 1.2%.

General Fund Non-Personal/Equipment/Other¹ expenditures and encumbrances ended the year at \$108.1 million, generating savings from the budgeted level of approximately \$13.3 million (11.0%). The majority of savings in this category were generated by the following departments: General Services (\$1.7 million); Planning, Building and Code Enforcement (\$1.7 million); Police (\$1.4 million); Information Technology (\$1.4 million); and City Clerk (\$1.3 million). Over half of these savings (\$7.3 million) was rebudgeted or assumed as savings in the development of the 2008-2009 Adopted Operating Budget and an additional \$2.0 million is recommended to be rebudgeted as part of this document. Excluding these rebudgets, adjusted Non-Personal/Equipment/Other savings total approximately \$4.0 million (3.6%).

In the City-Wide Expenses category, expenditures ended the year \$44.1 million below the budgeted level. Of this amount, \$41.7 million was rebudgeted or assumed as savings in the 2008-2009 Adopted Budget. Net adjustments are recommended in this document that will reduce the overall rebudget figure by \$524,000 to account for those appropriations that did not generate the amount of savings required to support rebudgets already approved. Factoring out all rebudget adjustments, City-Wide savings totaled \$3.0 million (2.0%) at year-end. These savings were spread among many appropriations as discussed later in this section.

In the Capital Contributions category, \$19.0 million remained unexpended at year-end. These savings were insufficient to cover the \$23.3 million rebudgeted to 2008-2009 as part of the

¹ The "Other" category expenditures are primarily comprised of budgets for the Mayor and City Council, Library Department grants program and the Parks, Recreation and Neighborhood Services fee activities program.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

Budget. Downward adjustments of \$4.6 million are recommended in this document to address the projects that were over-rebudgeted at the end of 2007-2008. Projects progressed faster than projected when the original rebudget requests were brought forward, resulting in additional expenditures at the end of 2007-2008 rather than the beginning of 2008-2009. After adjusting for rebudgets, the net savings in the General Fund Capital category was only \$366,000 (0.8%)

In addition to comparing actual expenditures to the modified budget, it is important to compare actual expenditures to the estimates used in formulating the 2007-2008 ending fund balance/2008-2009 beginning fund balance estimate for the 2008-2009 Adopted Budget. This comparison is used to determine any adjustments necessary to the 2008-2009 budget. An upward adjustment to the 2008-2009 Beginning Fund Balance is possible because expenditures ended the year below the estimates used in the budget development process.

As shown in Table C, the actual General Fund Expenditures, Transfers, and Reserves of \$880.4 million were approximately \$19.6 million below (2.2%) the estimated level. A significant portion of this savings (\$4.2 million) was carried over to 2008-2009 with the accompanying revenue for grant or reimbursement-related projects and programs. Adjusting for the revenue-related savings, the expenditure savings totaled \$15.4 million. Because the 2007-2008 Estimate figure assumed rebudgets at a higher level than available at year-end, a net downward rebudget adjustment of \$0.8 million is recommended as part of this document. This adjustment brings the total General Fund savings figure to \$16.2 million or 1.9%. Recommendations on the allocation of these additional funds are provided in this document.

TABLE C
2007-2008
EXPENDITURE ESTIMATE TO ACTUAL VARIANCES
(In \$000s)

Category	Estimate	Actual	Variance	% Variance
<i>Expenditures</i>	\$ 869,096	\$ 850,024	\$ 19,072	2.2%
<i>Transfers</i>	30,374	30,374	-	0.0%
<i>Reserves</i>	487	-	487	100.0%
<i>Total</i>	\$ 899,957	\$ 880,398	\$ 19,559	2.2%

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of General Fund Expenditure Performance

This section provides more detailed information on the departmental and non-departmental performance, including a discussion of significant variances.

Departmental costs (\$716.6 million) represented approximately 81.4% of total 2007-2008 General Fund expenditures. As can be seen in Table D on the following page, all departments remained within their total budget allocation and expended a cumulative 96.5% of their budgets, generating overall savings of 3.5%, or \$25.6 million. Of the twenty-one City departments/offices, six had expenditure savings of less than 5%. These six departments, which included the Police and Fire Departments, generated \$10.2 million (40%) of the savings. Eight departments had expenditure savings between 5% – 10% and generated \$8.6 million (33%) of the savings. The remaining seven departments had expenditure savings over 10% and generated \$6.9 million (27%) of the savings.

In 2007-2008, the following nine departments/offices had expenditure savings in excess of \$1 million: City Clerk; Fire; General Services; Information Technology; Mayor and City Council; Park, Recreation and Neighborhood Services; Planning, Building and Code Enforcement; Police; and Transportation. A portion of the savings in several of these departments/offices, however, were previously rebudgeted as part of the Adopted Budget and/or are being recommended to be rebudgeted as part of this document.

Those departments with General Fund expenditure variances over 5.0% and a minimum value of \$400,000 are discussed in detail in the following section. In addition, the year-end status of expenditures for both the Police and Fire Departments are also summarized.

Non-departmental expenditures totaled \$163.8 million, or 18.6% of the total 2007-2008 General Fund expenditures. In this category, 72.2% of the amount budgeted (excluding reserves) was expended. The reserves represent the largest portion of the unexpended funds and are being carried over or used in 2008-2009 as planned. It is also important to note that the majority of savings in the City-Wide Expenses and Capital Contributions categories also have been or are recommended in this document to be rebudgeted to the new fiscal year for their originally intended uses.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of General Fund Expenditure Performance (Cont'd.)

Departmental	2007-2008 Modified Budget	2007-2008 Expenditures	Variance	% Variance
City Attorney	\$ 15,399,315	\$ 15,057,190	\$ 342,125	2.2%
City Auditor	3,079,356	2,250,567	828,789	26.9%
City Clerk	3,858,357	2,429,928	1,428,429	37.0%
City Manager	12,509,265	11,641,509	867,756	6.9%
Economic Development	5,149,352	4,883,650	265,702	5.2%
Emergency Services	538,663	262,464	276,199	51.3%
Human Resources	7,991,465	7,401,519	589,946	7.4%
Environmental Services	1,756,118	1,510,847	245,271	14.0%
Finance	12,266,316	11,540,848	725,468	5.9%
Fire	160,735,302	158,633,506	2,101,796	1.3%
General Services	21,386,242	19,378,292	2,007,950	9.4%
Independent Police Auditor	871,085	811,810	59,275	6.8%
Information Technology	18,246,421	16,399,643	1,846,778	10.1%
Library	29,460,756	28,929,871	530,885	1.8%
Mayor & City Council	9,626,483	7,646,610	1,979,873	20.6%
Parks, Recreation & Neighborhood Services	66,511,829	65,455,837	1,055,992	1.6%
Planning, Building & Code Enforcement	38,244,507	34,921,530	3,322,977	8.7%
Police	287,471,082	282,437,421	5,033,661	1.8%
Public Works	10,834,450	10,086,550	747,900	6.9%
Redevelopment Agency	1,455,143	1,174,790	280,353	19.3%
Transportation	34,860,514	33,758,083	1,102,431	3.2%
Subtotal	742,252,021	716,612,465	25,639,556	3.5%
Non-Departmental				
City-Wide Expenses	148,477,758	104,350,600	44,127,158	29.7%
Capital Contributions	48,100,678	29,060,836	19,039,842	39.6%
Transfers	30,374,041	30,374,041	-	0.0%
Earmarked Reserves	79,029,254	-	79,029,254	100.0%
Contingency Reserve	29,738,642	-	29,738,642	100.0%
Ending Fund Balance	23,801,339	-	23,801,339	100.0%
Subtotal	359,521,712	163,785,477	195,736,235	54.4%
TOTALS	\$ 1,101,773,733	\$ 880,397,942	\$ 221,375,791	20.1%

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues

Following is a discussion of those departments with significant variances and a summary of the performance in the City's two largest General Fund departments, Police and Fire.

- *City Auditor*

The Office of the City Auditor expended 73.1% of its General Fund appropriation with resulting savings of \$829,000. The majority of this variance is related to Personal Services expenditures, which were 28.5% below (\$773,000) the modified budget as a result of salary savings due to five of the Office's 18 (28%) budgeted positions being vacant for most of 2007-2008. Non-Personal/Equipment expenditures ended the year 15.3% below (\$55,000) budgeted levels. A portion (\$65,200) of the Office's savings was rebudgeted in the 2008-2009 Adopted Budget for audits performed by the City's external auditor relating to the use of Libraries and Parks bond funds, the use of Library Parcel Tax funds, and the City's investment pooled portfolio. An additional \$20,000 in savings is recommended for rebudget in this document to cover an unanticipated Consultant Services contract.

- *City Clerk*

The Office of the City Clerk expended 63.0% of its General Fund appropriation with resulting savings of \$1.4 million. Personal Services expenditures were 4.6% below (\$85,000) budgeted levels. The majority of this variance is related to Non-Personal/Equipment expenditures, which were 67.8% below (\$1.3 million) the modified budget as a result of savings from the June 2008 election. A portion (\$1.2 million) of the Office's savings was rebudgeted in the 2008-2009 Adopted Budget to pay for run-off election costs in Districts 2 and 8 as well as city-wide ballot measures that were expected to be on the June 2008 election, but were instead moved to the November 2008 election. An additional \$65,000 in savings is recommended for rebudget in this document for remodeling the Clerk's Office's workspace, including the purchase and installation of a mobile filing system, to improve the Office's operational efficiency and ability to respond to customer inquiries.

- *City Manager*

The Office of the City Manager expended 93.1% of its General Fund appropriation with resulting savings of \$868,000. The savings in the Office were split evenly between Personal Services expenditures that were 4.0% below (\$413,000) budgeted levels and Non-Personal/Equipment expenditures, which were 24.7% below (\$454,000) the modified budget.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *City Manager (Cont'd.)*

Personal Services savings can be attributed to approximately 10 of the Office's 90 (11%) budgeted positions being vacant for most of 2007-2008. Non-Personal/Equipment savings are due to funds that were reallocated from the Personal Services appropriation to the Non-Personal/Equipment appropriation to fund special projects such as the elimination of the General Fund structural deficit and leadership training to move the City towards a sustainable service delivery model given reduced General Fund resources. A portion (\$550,000) of these savings was rebudgeted in the 2008-2009 Adopted Budget for Employee and Labor Relations Consulting (\$150,000) and for the City Manager's Special Projects mentioned above (\$400,000).

- *Finance Department*

The Finance Department expended 94.1% of its General Fund Budget with resulting savings of \$725,000. Personal Services expenditures were 3.2% below (\$324,000) budgeted levels as a result of salary savings due to vacant positions. A portion of the personal services savings were anticipated (\$184,000), and rebudgeted in the 2008-2009 Adopted Budget to support activity in the Debt Management Program that will generate city-wide savings. The Department's Non-Personal/Equipment budget was 80.5% expended, with year-end savings of \$401,000. A significant portion of the non-personal savings (\$318,000) was rebudgeted in the 2008-2009 Adopted Budget to support the City's Investment Program and prepare audit statement manuals (\$268,000), as well as to provide funding for a Financial Advisor for the potential issuance of Pension Obligation Bonds for the Federated Retirement Plan.

- *Fire*

At the end of 2007-2008, the Fire Department had expended or encumbered 98.7% of its total modified budget of \$160.7 million, with resulting savings of \$2.1 million. The Personal Services appropriation of \$153.0 million was 98.8% expended, with savings of \$1.8 million, primarily due to overtime savings and vacancy savings in the Fire Fee Program. In addition, only one of three budgeted Firefighter Recruit Academies occurred in 2007-2008. Savings of \$301,000 were rebudgeted to 2008-2009 to fund a third Firefighter Recruit Academy in order to meet staffing requirements resulting from an anticipated higher level of retirements in January 2009. Personal Services savings of \$668,000 in the development fee program is recommended in this document to be added to the Fire Fee Reserve to reconcile actual fee program expenditures for 2007-2008. Another \$80,000 is recommended for rebudget in this

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Fire (Cont'd.)*

document to complete executive recruitments for four executive vacancies: Assistant Chief, two Deputy Chiefs, and a Deputy Director. In addition, an increase of \$119,600 to the rebudget for the Fire Recruit Academy is recommended.

Fire's overtime expenditures of \$8.5 million ended the year below the modified budget level of \$12.5 million. Savings in overtime of \$3.9 million were however partially offset by overages of \$2.1 million in salaries and benefits. Overtime usage is largely attributed to fulfilling minimum staffing requirements. At the end of June 2008, the Fire Department had no vacant line positions and had 11 overstrength Firefighters who were able to fill minimum staffing slots due to absences. This resulted in lower overtime usage and higher full-time salary costs. In January 2009, the Fire Department is expected to bring its 2007-2008 annual overtime report to the Public Safety, Strategic Support and Finance Council Committee. This report is expected to include an analysis of relief personnel to overtime allocation for minimum staffing.

The Fire Department ended 2007-2008 with a total of 270 filled paramedics (174 front-line, 5 Supervisors, and 91 support), compared to the 154 front-line Firefighter Paramedics that are necessary to fully staff all apparatus. The number of targeted front-line Firefighter Paramedics increased (from 147) for Fire Station 33 that came online in August 2007, and Fire Station 35 that came online in October 2007. Of the 15 Firefighters remaining from the April 2007 Academy, all have completed paramedic accreditation. Additionally, 26 Recruits graduated from the November 2007 Firefighter-EMT Recruit Academy in March 2008. An 18-week Firefighter Paramedic Academy consisting of 26 recruits began in July 2008. The Department projects it will have no issues maintaining the target staffing level of 154 front-line Firefighter Paramedics.

The Department's Non-Personal/Equipment budget was 96.3% expended or encumbered, with year-end savings of \$287,000. The portion of this savings (\$65,000) from Fire's Development Services Fee Program is recommended in this document to be allocated to the Fire Fee Reserve. In addition, \$165,900 in savings is recommended for rebudget in this document for the following: additional expenses anticipated for the April 2009 Academy (\$80,900); consultant services for the Emergency Medical Services (EMS) Agency redesign process (\$50,000); and a Risk-Based Inspection Study (\$35,000).

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *General Services*

The General Services Department expended 90.6% of its General Fund Budget with resulting savings of \$2.0 million. Personal Services expenditures were 2.6% below budgeted levels (\$277,000) as a result of salary savings due to vacant positions. Non-Personal/Equipment expenditures and encumbrances were 16.1% below budgeted levels (\$1.7 million). These savings were mainly attributed to significant savings in both gas and electricity expenditures, as baseline expenditures for New City Hall were still being developed when the 2007-2008 Budget was developed. In addition, savings were realized due to charges being moved out of the Department's Budget to the Police Department's budget for electricity charges at the police complex. The gas and electricity budget was significantly reduced for 2008-2009 to account for these factors.

- *Human Resources*

The Human Resources Department expended 92.6% of its General Fund budget with resulting savings of \$590,000. Personal services expenditures were 6.5% below budgeted levels (\$451,000) as a result of salary savings due to vacant positions. A portion of the personal services budget (\$20,000) was anticipated and rebudgeted in the 2008-2009 Adopted Budget for city-wide and public safety classification testing. Non-Personal/Equipment expenditures were 12.7% below budgeted levels (\$139,000). More than half of the non-personal/equipment savings was anticipated and rebudgeted to the current year. Diversity and Workforce Planning contractual services funds (\$73,000) were rebudgeted due to delays in the request for proposal process and contracts will now be awarded in 2008-2009. An additional \$20,000 of savings from this project is recommended to be rebudgeted in the Annual Report.

- *Information Technology*

The Information Technology Department (ITD) expended 89.9% of its General Fund budget with year-end savings of \$1.8 million. Personal services expenditures were 3.9% below budgeted levels (\$461,000) as the result of vacancy savings. Although positions were filled in the course of the year, a significant number of the appointments were promotions, resulting in a minimal impact on the overall number of departmental vacancies. Because the majority of these vacancies have now been filled, ITD anticipates that vacancy savings will remain close to budgeted levels during 2008-2009.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Information Technology (Cont'd.)*

Non-personal/equipment expenditures were 21.7% below budgeted levels (\$1.39 million). This savings represents reduced operating expenses and one-time savings resulting from lower than estimated first-year maintenance cost for the Storage Area Network. The majority of the \$1.39 million balance was rebudgeted in the 2008-2009 budget for projects including: Sunshine Reforms Storage (\$325,000), Web Audit (\$250,000), Storage Area Network (SAN) Maintenance (\$221,000), Information Security Projects (\$250,000), and Electronic Content Management (\$43,000). An additional \$197,000 in savings is recommended for rebudget in this document for professional services for budget systems migration (\$70,000), Public Records Act Requests/E-Discovery (\$66,000), Wireless Equipment (\$42,000), and VoIP Testing Equipment (\$19,000).

- *Planning, Building and Code Enforcement*

The Planning, Building and Code Enforcement Department (PBCE) expended 91.3% of its General Fund budget, with resulting savings of \$3.3 million. By budget category, \$1.63 million of the savings was in Personal Services and \$1.69 million was in Non-Personal/Equipment. The majority of the Personal Services savings was in the Development Fee Program (\$1,072,000) and Community Code Enforcement (\$461,000) due to vacant positions. The savings in the fee program are recommended in this document to be added to the Fee Reserves as part of the process to reconcile actual fee program expenditures and revenues for 2007-2008.

A large portion of the Non-Personal/Equipment savings (\$565,000) was anticipated and rebudgeted to 2008-2009. The following projects were included in that rebudget amount: Sign Code Update (\$150,000), Development Services Website Services and FileNet Upgrade (\$140,000), Code Enforcement Fee Funded Vehicles (\$105,000), Contractual Plan Check (\$100,000), Neighborhood Revitalization Activities (\$60,000), Address Database Update (\$10,000). In addition, a portion of the savings in Non-Personal/Equipment is the result of the planned decrease in expenditures in development-related areas (\$792,000).

When comparing the program revenues and expenditures for the Building and Planning Fee Programs, additional funding of \$609,000 and \$909,000 were realized in both the Building and Planning Fee Programs, respectively. The excess in the Building Fee Program is proposed in this document to be used to reduce the revenue estimate for Building revenues in 2008-2009 due to lower than expected year-to-date performance. The excess in the Planning Fee Program is proposed to be added to the Planning Fee Reserve.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Police*

Overall, the Police Department expended 98.2% of its total modified budget with resulting savings of \$5.0 million through year-end. Approximately \$3.6 million of the savings was in the Personal Services category with retirement and other benefit savings contributing to the majority of the overall personal services savings. A portion of the personal services savings (\$600,000 for the Recruit Academy and \$300,000 for records support staffing) was rebudgeted in the 2008-2009 Adopted Budget. Further savings, \$1,000,000 for a one-time buy-down of the compensatory time balance and \$300,000 for additional records support staffing to reduce existing backlogs, are recommended for rebudget in this document. Overtime expenditures of \$9.5 million were 6.1% above the modified budget of \$8.9 million; however, this overage was offset by savings in full time salary expenditures. The overage in overtime was due in part to an increased number of homicide investigations in 2007-2008 compared to prior years, as well as overtime used to backfill for vacancies in patrol, staffing in the Downtown Entertainment Zone, and non-sworn vacancies in Communications and Records.

In accordance with the Memorandum of Agreement (MOA) with the Police Officers Association, sworn personnel are able to maintain up to 240 hours of compensatory time. Sworn personnel with compensatory time balances that exceed 240 hours at the end of the last pay-period of the calendar year are required to reduce those balances to within the 240-hour limit within 150 days. Sworn employees were able to reduce 48.8% of the hours in excess of the 240-hour limit; however, 88 sworn employees were unable to fully implement their compensatory time reduction plans within the 150-day period. The majority of these personnel were still able to significantly reduce their excess balances, while some employees subsequently retired or were on leave (disability or military), or were unable to reduce their balances due to workload demands or staffing shortages and, as a result, were unable to use their compensatory time. At the end of the reduction period, 7,127 excess hours remained for these 88 personnel.

Without any action the compensatory time balance at year-end for sworn personnel would have been 244,944 hours. This balance represented a 2.0% increase compared to the 2006-2007 total sworn compensatory time balance of 240,215 hours. In order to reduce this liability to the City, a one-time buy-down of \$405,000 for 45% of sworn personnel in the Bureau of Field Operations (BFO) over 240 hours was approved at the end of 2007-2008 using the Department's Personal Services savings. This one-time buy-down reduced the total sworn compensatory time balance to 236,230 hours at the end of 2007-2008. The buy-down lessened the City's liability in this area and the new compensatory time balance became a

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Discussion of Significant Departmental Variances and Other Issues (Cont'd.)

- *Police (Cont'd.)*

1.7% decrease compared to 2006-2007. As mentioned above, \$1,000,000 is recommended for rebudget in this document to further assist the Department in maintaining MOA compliance and reducing the compensatory time balance liability to the City. This funding will be used for a one-time buy-down of 100% of sworn personnel in the Bureau of Investigations (BOI) and 45% of sworn personnel in BFO over 240 hours. The Police Department will continue to monitor the balance and, to the extent possible, implement measures to curb the level of compensatory time accrued.

The Department's Non-Personal/Equipment budget was 94.4% expended and encumbered, with savings of \$1.4 million. Police vehicle replacement savings of \$679,000 and gas and electric utilities savings of \$222,000 contributed to a significant portion of the overall Non-Personal/Equipment savings. A portion of the Non-Personal/Equipment savings (\$400,000 for Police Administration Building security improvements and \$64,763 for the Child Interview Center) was rebudgeted in the 2008-2009 Adopted Budget, and additional savings (\$590,000 for vehicle replacement and \$82,000 for build-up of the covert vehicle fleet) are recommended for rebudget in this document.

- *Public Works*

The Public Works Department expended 93.1% of its General Fund budget with resulting savings of \$748,000. Personal Services expenditures were 3.8% below budgeted levels (\$289,000) as a result of salary savings due to vacant positions. The majority of the personal services savings (\$286,000) were realized in the Fee Program. Non-Personal/Equipment expenditures and encumbrances were 14% below budgeted levels (\$459,000). These savings, which primarily reflect non-Fee Program expenditures, are the result of lower than anticipated lease payment costs as well lower than anticipated costs associated with several contractually-funded activities. The comparison of actual revenues and expenditures for the Public Works Fee Program results in a surplus of \$290,000 that is recommended to be allocated to the Public Works Fee Program Reserve.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances

The non-departmental categories consist of City-Wide Expenses, Capital Contributions, Transfers from the General Fund, Earmarked Reserves, and the Contingency Reserve. An overview of the expenditure performance in these categories is provided below:

TABLE E
2007-2008
NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)

Category	Modified Budget	Actual	Variance	% Variance
<i>City-Wide Expenses</i>	\$ 148,478	\$ 104,350	\$ 44,128	29.7%
<i>Capital Contributions</i>	48,101	29,061	19,040	39.6%
<i>Transfers</i>	30,374	30,374	-	0.0%
<i>Earmarked Reserves</i>	102,830	-	102,830	100.0%
<i>Contingency Reserve</i>	29,739	-	29,739	100.0%
Total	\$ 359,522	\$ 163,785	\$ 195,737	54.4%

- *City-Wide Expenses*

A total of 70.3% of the General Fund appropriation for City-Wide Expenses was expended, resulting in a significant savings level of \$44.1 million. Approximately 94.4% of this amount (\$41.7 million) was rebudgeted or assumed as savings as part of the 2008-2009 Adopted Budget. Additional net adjustments, resulting in a cumulative reduction of \$524,000 to the previous rebudget figure, are also recommended as a result of the year-end review, including additional rebudgets, downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved, and revenue-related increases. Details of these appropriation adjustments are shown in Section III of this document.

After accounting for the rebudgets already approved (\$41.7 million), and those recommended in this report, net savings in the City-Wide Expenses category totals approximately \$3.0 million. A discussion of the performance in each City Service Areas is provided below:

Community & Economic Development – 2007-2008 expenditures in this category totaled \$30.1 million and were \$6.5 million below the modified budget. The 2008-2009 Adopted Budget included rebudgets totaling \$5.8 million, the most significant of which were \$1.3 million for the Comprehensive General Plan Update, \$1.0 million for the Economic Incentive Fund, and \$800,000 for City Hall Retail Space. Additional net adjustments are recommended

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *City-Wide Expenses (Cont'd.)*

as part of this report totaling \$216,000 and include, but are not limited to, additional unspent funds for the Sports Opportunity Fund (\$59,000), Mexican Heritage Plaza Facility Use Consultant (\$50,000), Theater Realignment Consulting Services (\$50,000) and Mexican Heritage Corporation Technical Assistance (\$50,000), as well as downward adjustments to the Soccer Stadium Process Costs (\$66,000) and Economic Development Pre-development Activities (\$44,000) since these projects did not generate as much savings as was anticipated in the development of the 2008-2009 Adopted Budget. After accounting for all rebudgets, adjusted net savings in this category totaled \$401,000.

Environmental & Utility Services – 2007-2008 expenditures in this category totaled \$1.2 million and were \$328,000 below the modified budget. The 2008-2009 Adopted Budget included rebudgets of \$303,000 for the Energy Efficiency Program (\$235,000) and the Low Income Energy Assistance Fund (\$68,000). Additional net adjustments are recommended as part of this report totaling \$7,000. Additional savings of \$16,000 in the Low Income Energy Assistance Fund were realized and are recommended to be rebudgeted to 2008-2009 in this report. The Energy Efficiency Program rebudget is recommended to be adjusted downward slightly (\$9,000) as part of this report since the project did not have the year-end savings that was originally projected. This CSA ended the year slightly below budgeted levels with net savings totaling \$18,000 after accounting for all rebudgets.

Neighborhood Services – 2007-2008 expenditures in this category totaled \$10.1 million and were \$5.1 million below the modified budget. The 2008-2009 Adopted Budget included rebudgets totaling \$5.2 million, the most significant of which were \$1.3 million for the Community Action and Pride Grant program, \$728,000 for Parks Maintenance Non-Personal/Equipment purchases, \$575,000 for Hoffman/Via Monte Neighborhood Youth Center, \$570,000 for the San Jose Best Program, \$509,000 for Animal Care and Services, and \$265,000 for the 2006 Bureau of Justice Grant. There were several instances where actual year-end savings were less than projected, the largest of which are the Animal Care and Services Program (\$156,000) and Neighborhood Revitalization Strategy (\$91,000). As a result, a net downward adjustment of \$274,000 is recommended for this category. After accounting for all rebudgets, adjusted net savings total \$176,000.

Public Safety – 2007-2008 expenditures in this category totaled \$11.6 million and were \$4.7 million below the modified budget. The 2008-2009 Adopted Budget included rebudgets totaling \$5.3 million, the most significant of which included \$1.2 million for 2007 Super Urban Area Security Initiative – Interoperable Communications, \$834,000 for 2007 Super

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *City-Wide Expenses (Cont'd.)*

Urban Area Security Initiative – OES, \$682,000 for the Domestic Violence Prevention Program, and \$490,000 for the Automated Fingerprint ID System. Because the overall rebudget amount approved as part of the 2008-2009 was higher than the actual amount of savings realized, a net downward adjustment of \$831,000 to the rebudget figure is recommended in this document. Downward adjustments recommended for individual appropriations include the following: 2007 Super Urban Area Security Initiative – Police (\$211,000); 2007 Super Urban Area Security Initiative – OES (\$395,000); and 2007 Emergency Management Performance Grant (\$131,000). After accounting for all rebudgets, adjusted savings total \$278,000.

Transportation & Aviation Services – 2007-2008 expenditures in this category totaled \$2.5 million and were \$897,000 million below the modified budget, primarily reflect savings in the Contractual Street Tree Planting (\$400,000), Parking Citations Processing (\$312,000) and Parking Citations and Jail Courthouse Fees (\$113,000). A rebudget of \$18,000 in Contractual Street Tree Planting is recommended as part of this report. After accounting for this rebudget, adjusted net savings in this category totaled \$879,000.

Strategic Support – 2007-2008 expenditures in this category totaled \$49.1 million and were \$26.7 million below the modified budget. The 2008-2009 Adopted Budget included rebudgets totaling \$25.1 million, the most significant of which included \$8.1 million for General Liability Claims, \$4.6 million for Sick Leave Payments Upon Retirement, \$2.0 million for Senior Staff Home Loan Assistance, \$1.7 million for Public, Educational, and Government (PEG) Access Facilities - Operations, \$1.7 million for the Arts Stabilization Loan Fund program, \$1.4 million for Public and Education Access – Capital Expansion, and \$1.1 million for Information Technology Test Lab and Inventory Management. Additional net adjustments totaling \$341,000 are recommended as part of this report and include, but are not limited to, \$1.0 million for Workers' Compensation Claims, \$96,000 for Old City Hall Land Use, and \$79,000 for Information Technology Test Lab and Inventory. There were several instances where actual year-end savings were less than projected, and as a result, downward adjustments are recommended in this report, the largest being to the General Liability Claims (reduce rebudget by \$555,000). After accounting for all rebudgets, adjusted net savings in this category totaled \$1.2 million. The largest amount of savings not rebudgeted occurred in FMC Debt Payments - General Fund (\$734,000) and Property Tax Administration Fee (\$203,000), with smaller amounts in various other appropriations.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *Capital Contributions*

In 2007-2008, the General Fund provided funding totaling \$48.1 million for capital projects. Of this amount, approximately \$19.0 million was unexpended at year-end. The projects with the largest unexpended balances included:

<u>Capital Projects</u>	<u>(\$000s)</u>
Watson Site Cleanup and Restoration	\$ 8,632
Maintenance Backlog – Neighborhood Appearance	1,771
Martin Park Landfill	1,432
Fire Apparatus Replacement	631
Tamien Area Park Improvements	622
Pavement Maintenance Repair	620
Parks and Recreation Bond Projects	588
Arena Repairs	547
Maintenance Backlog – Traffic Sign Replacement	546
Watson Site Planning and Remediation Contingency	538
Maintenance Backlog – Roadway Striping	389
Mayfair Summer Aquatics Program	379
City Hall Network Secondary Cooling	348
Animal Shelter Facility	284
Maintenance Backlog – Safety Enhancements	200
Watson Park – Terrace Drive	200
All Other Projects	<u>1,313</u>
Total Unexpended Capital Projects	\$ 19,040

It should be noted, however, that rebudgets of \$23.3 million were included as part of the 2008-2009 Adopted Budget. Since the actual savings necessary to cover these rebudgets did not occur, downward adjustments of \$4.6 million are recommended in this document. After these adjustments, net savings from Capital Contributions totaled \$366,000.

- *Transfers*

Actual Transfers to other funds totaled \$30.4 million with all transfers being completed as budgeted.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *Reserves*

General Fund Reserve categories include Earmarked Reserves, the Contingency Reserve, and the Ending Fund Balance Reserve. On June 30, 2008, the total Reserve balance was \$132.6 million. Of this amount, \$79.1 million represented Earmarked Reserves, the largest of which were the Salary and Benefits Reserve (\$10.0 million); Economic Uncertainty Reserve (\$10.0 million); Development-Related Activities Reserves (\$9.2 million); Neighborhood Investment (\$4.6 million) and Capital Improvements (\$4.3 million) Reserves; 2008-2009 Future Deficit Reserve (\$7.3 million); Enhanced Park Maintenance (\$6.2 million); Future Capital Projects (FF&E) Reserve (\$5.7 million); and Hayes Mansion Conference Center Line of Credit Reserve (\$5.0 million).

Almost all of the Earmarked Reserves were approved for rebudget to 2008-2009 (\$57.1 million) as part of the Adopted Budget and appropriated as reserves, or were used as solutions to the 2008-2009 General Fund shortfall (\$19.2 million). The Ending Fund Balance Reserve of \$23.8 million was allocated as part of the 2008-2009 Adopted Budget Beginning Fund Balance.

At the end of the year, the General Fund Contingency Reserve balance was \$29.7 million. During 2007-2008, the Contingency Reserve increased by a net total of \$0.6 million from the Adopted Budget level of \$29.1 million. The following adjustments were approved during the year:

- A decrease of \$150,000 to support the completion of the Evergreen-East Hills Development Policy Update.
- An increase of \$1,264,843 to bring the Contingency Reserve to 3% of the budget based on the Annual Report actions.
- An increase of \$150,000 to restore the funding that was used to support the Evergreen-East Hills Development Policy Update.
- A decrease of \$665,000 to provide funding necessary to transition the operation of the Mexican Heritage Plaza in 2007-2008.

As part of the 2008-2009 Adopted Budget, \$29.2 million of the \$29.7 million Contingency Reserve was rebudgeted. It is recommended that the remaining \$0.5 million that has not yet been carried over to 2008-2009 be rebudgeted as part of this report. No additional funding is necessary to be added to the Contingency Reserve in 2008-2009 in order to comply with the Council Policy of maintaining a 3% Contingency Reserve in the General Fund.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance

A review of the overtime performance has been included in this report to provide an overall reconciliation for the year and to address the City Council's interest in this particular category. Overall, for all funds, the overtime budget of \$26.5 million produced year-end savings of \$3.0 million or 11.4%. The following table provides departmental overtime expenditure and variance information for 2007-2008.

TABLE F
2007-2008
Departmental Over-Time Expenditures and Variances

Department	Modified Overtime Budget TOTAL	Overtime Actuals TOTAL	Total Budget to Actuals Variance	% Variance
Airport	\$ 388,709	\$ 442,298	\$ (53,589)	(13.8%)
City Attorney	49,786	8,772	41,014	82.4%
City Auditor	-	-	-	N/A
City Clerk	-	245	(245)	N/A
City Manager	109,982	41,941	68,041	61.9%
Convention Facilities	223,343	247,738	(24,395)	(10.9%)
Economic Development	14,743	2,539	12,204	82.8%
Emergency Services	-	2,497	(2,497)	N/A
Environmental Services	1,300,512	1,449,399	(148,887)	(11.4%)
Finance	67,323	65,327	1,996	3.0%
Fire	12,446,912	8,490,974	3,955,938	31.8%
General Services	548,879	653,215	(104,336)	(19.0%)
Human Resources	26,851	29,998	(3,147)	(11.7%)
Mayor & City Council	-	9,483	(9,483)	N/A
Housing	34,831	8,736	26,095	74.9%
Independent Police Auditor	509	1,356	(847)	(166.4%)
Information Technology	150,677	218,896	(68,219)	(45.3%)
Library	238,139	102,426	135,713	57.0%
Parks, Rec & Neigh Svcs	458,458	674,173	(215,715)	(47.1%)
Planning, Bldg & Code Enf	464,625	343,384	121,241	26.1%
Police	8,937,367	9,478,302	(540,935)	(6.1%)
Public Works	102,608	119,718	(17,110)	(16.7%)
Transportation	980,384	1,121,386	(141,002)	(14.4%)
	\$ 26,544,638	\$ 23,512,803	\$ 3,031,835	11.4%

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance (Cont'd.)

While General Fund overtime expenditures in 2007-2008 represented only 3.9% of the total General Fund Personal Services expenditures, they do provide an important tool for departments to meet service demands. The use of overtime is often an effective way for departments to respond to unforeseen variations in service requirements. For most departments, overtime is typically used to offset the impact of vacancies, to address increases in activity levels, to respond to seasonal workload increases, or to implement service improvements. In 2007-2008, the overtime allocations for several departments were exceeded as departments balanced service delivery needs with the resources available. While some overtime budgets were exceeded, all departments remained within their overall personal services appropriations.

A discussion of all departments' overages in excess of \$5,000 and 15%, as well as overtime performance for the Police and Fire Department follows.

- The Fire Department's overtime expenditures of \$8.5 million ended the year \$3.96 million below the modified budget level of \$12.5 million, offset by overages of \$5.1 million in full-time salaries. Overtime usage is largely attributed to fulfilling minimum staffing requirements. A lower than budgeted level of sworn absences and vacancies experienced during the year resulted in lower overtime usage, and higher full-time salary costs. Fire's relief to overtime balance will be revisited, and adjustments made as appropriate, through the annual overtime report to the Public Safety, Strategic Support and Finance Council Committee scheduled for January 2009.
- The General Services Department's overtime expenditures exceeded budget by \$104,000 (19%) primarily to offset the impact of vacancies within their facilities and fleet management units. Personal Services savings from these vacancies were sufficient to allow the Department to end the year within budgeted levels.
- Information Technology overtime expenditures exceeded budget by \$68,000 (45.3%). Active Directory, a primary component in network infrastructure, is used to manage users and computer resources. The upgrade to Active Directory was required due to the cessation of support from the manufacturer for older server operating systems. Overtime usage in various special funds occurred as part of ITD's objective to migrate all users to Active Directory prior to Daylight Savings Time in November 2008. Overall, the Department's personal services savings was sufficient to offset this overage and allow the Department to end the year within budgeted levels.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

<p>Review of Overtime Expenditure Performance (Cont'd.)</p>
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- The Parks, Recreation, and Neighborhood Services Department exceeded their overtime budget by \$215,000, or 47%. The department retained significant vacancies throughout the year, at times carrying over 100 vacant benefitted positions. The large number of vacancies necessitated the use of overtime to maintain critical City services, such as parks maintenance. Overall, the Department's personal services expenditures were 1.9% less than budgeted as a result of salary savings (\$864,000) from vacant positions.
- The Public Works Department's overtime expenditures of \$120,000 exceeded budget by \$17,000 or 16.7%. The over expenditure is primarily due to higher than budgeted program support expenses. The higher than anticipated expenditures were offset by salary savings from vacant positions, which contributed to the need for overtime work.
- The Police Department's overtime expenditures of \$9.5 million were 6.1% above the modified budget of \$8.9 million; however, this overage was offset by savings from full-time salary expenditures. The overage was due in part to higher overtime for the increased number of homicide investigations in 2007-2008 compared to prior years. Overtime was also used by the Department, when needed, to backfill for staffing shortages caused by street-ready sworn vacancies in patrol, as well as to provide adequate enforcement particularly in the Downtown Entertainment Zone. Non-sworn staff in Communications and Records that directly support Police functions also used overtime, when needed, to backfill for staffing shortages.